

BUSINESS

# BUDGETING

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**BUSINESS BUDGETING**

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**NEWS BULLETINS**

WALTER BUNGE, Chicago Chapter member, conducted a session on "How to Get the Facts You Need Out of Cost Records" at the Plant Management Conference held at the University of Wisconsin.

Our National President, BILL McGUIRE, contributed to our national recognition as an important business society with an article in "THE OFFICE" magazine. It was in the January issue of this magazine.

A joint meeting of the NEW YORK and the NORTHERN NEW JERSEY Chapters of N.S.B.B. was held in November. An attendance of 73 members and guests established a record attendance at a New York Chapter meeting. (As editors of BUSINESS BUDGETING we regret that we do not have more information to convey to you concerning this meeting, but no further news or pictures reached us.)

The ST. LOUIS Chapter accepted an invitation of the Internal Auditors for a joint meeting in January.

It was reported to us that WALTER BUNGE, Chicago Chapter, DON CARTLAND, Chicago Chapter and JOE GRIMM, Milwaukee Chapter served as discussion leaders at an AMA session on Budgeting at Atlanta. Walter served as General Chairman of the session.

LOU ZASTROW, of Badger Meter Manufacturing Co., Milwaukee, spoke at a meeting of Beta Alpha Psi, University of Wisconsin. About 90 people attended this meeting of this professional accounting fraternity, including a number of the university faculty. As we understand, LOU did a fine job with his presentation of "Duties of a Budget Director."

One of our members, PAX WILT of the Louisville Chapter, was re-elected to his second term as representative of District 3 on the County Board of Education.

WILSON T. SENEY, New York Chapter, has been named a Senior Consultant with McKinsey & Company, Inc., management consultants. Mr. SENEY has been with McKinsey & Company since 1950, specializing in long-range planning and in financial and operational controls for management.

We note that the N.A.C.A. in the January edition of the N.A.C.A. Bulletin lists the November issue of BUSINESS BUDGETING as recommended reading for their members.

NORM REINHOLD, Cincinnati Chapter, has been promoted to Comptroller of the MacGregor Company of Cincinnati, Ohio.

DeWITT COX, Canton Chapter, addressed the Lansing, Michigan Chapter of N.A.C.A. in January. His talk was entitled "Cost Accounting for Automation".

The Industrial Management Institute of the University of Wisconsin Extension at Madison has arranged for a three day seminar on budgeting on March 19, 20, and 21. All speakers at this three day budgeting seminar will be members of the Milwaukee Chapter of NSBB. The speakers will be headed by our National President, W. D. McGuire, and Milwaukee Chapter President, Joe Van Camp.

REID McCURM, Vice-President of the St. Louis Area Chapter of NSBB is scheduled to speak on the subject "Economic Justification for Capital Investment" at the St. Louis Regional Conference of the National Association of Cost Accountants. Reid, who is Treasurer of Anheuser Busch, Inc., and Secretary-Treasurer of the St. Louis Cardinals, has been an instructor of Budgetary Control in the Evening School of St. Louis University for the past nine years.

## ACCOUNTING AND BUDGETING FOR THE AUTOMATED PLANT

By: DeWitt C. Cox

Supervisor of Budgets, Timken Roller Bearing Company, Canton, Ohio

*Wonder what "Automation" will do to accounting and budgeting techniques? Perhaps not quite what you may think. Here an article on the true life experiences of the budget executive for an automated plant. Read closely -- your industry may be next.*

Although The Timken Roller Bearing Company has been operating a bearing manufacturing plant at Bucyrus, Ohio, which might be described as being fully automated for a number of years, we never refer to it as an "automated" plant. Our abstinence from the use of the word does not stem from the fact that it will not fit some of the definitions given for the term. It is rather that we believe that undue emphasis has been given to the change wrought through the process of automation.

We believe our change in method is merely an extension of the mechanization process that has been going on ever since the invention of the wheel. We believe that taking the work load off the backs of men and putting it on machines is good both morally and economically as it has long since proven itself to be. We believe the present phase of this evolution of our way of life should not be dignified or notarized with a special word to arouse the emotions of those not well informed.

John Diebold, a recognized authority on automation, separates the phenomena into two camps. The first he calls "Detroit Automation or Advanced Mechanization." The significant change in this process is the connecting of the producing machines with automatic material handling and machine loading devices. In the other camp he places the feed-back control type of machine which uses the principle of automatic self-regulation. A basic example of this is the steam governor on a steam engine which automatically adjusts the steam pressure.

Our operation could well fall into the first of these groups. We prefer to call it "high production techniques." Since the reader will be more familiar with the more publicized term, however, I shall disregard our preferred terminology and shall discuss our accounting for our Bucyrus operation as a case study of accounting and budgeting for the automated plant.

### DOES AUTOMATION CHANGE ACCOUNTING?

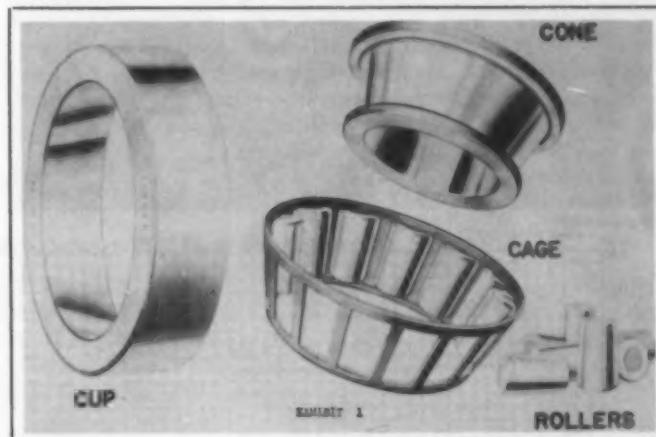
Considering the glamour that has surrounded this new word in our vocabulary, one would almost expect that the accountant would have to come up with some brand new techniques to cope with the problems presented. There is a story about a cost accountant who had always used the direct labor hour as the common denominator to load his product unit costs. Suddenly his company automated, eliminating direct labor entirely. The story goes that they had to buy him a new leather jacket and send him away to the local mental hospital because he was just too old to change.

Of course the story is pure myth. In the first place, it is doubtful if complete elimination of direct labor has yet been accomplished. In the second place, other common denominators have long been used by many companies.

It is my opinion that the accounting techniques already developed are adequate for handling the problems presented by a change to automation. This does not mean that a change to automation will not affect the accounting problems of a specific company. Almost any change in the productive process will change cost behavior which may require a change in the accounting treatment. If you look around, however, you will find some other company

in your industry or in some other industry that has had a comparable cost pattern for many years.

In this article I shall describe our operation at our Bucyrus Plant, both in regard to our manufacturing process and our Accounting and Expense Control procedure connected therewith. I shall then relate some of the changes in cost behavior we have experienced in changing to this method of manufacture and show how our accounting methods seem to be giving us the answers we desire.



We make tapered roller bearings, an illustration of which is pictured in Exhibit I. The bearing is constructed of four basic parts -- the cup, the cone, the rollers, and the cage which positions the rollers around the cone. The cup and the naked cone are the only components actually manufactured at the present time in our Bucyrus Plant. The rollers and cages are made in other plants and shipped to Bucyrus to be assembled with the naked cone on the cone lines.

### MANUFACTURING PROCESS

The cup and the cone are cut from seamless steel tubes on screw machines. Included with the screw machine operation in what we term "Green Machining" are the chamfering and stamping operations. Chamfering is the removal of the one sharp edge left on each part at its' last point of contact with the tube from which it was cut. The stamping operation is the stamping of our trade name and the part number on each part.

The parts are then carburized and hardened in the heat-treat operation. Here the parts are heated and the surface impregnated with carbon after which they are quenched in oil. It is here that the parts acquire that hard shell to produce a long wearing surface while leaving a softer core to absorb shock and prevent the part from being brittle and subject to fracture.

After hardening, the surfaces are ground to precision dimensions on gridding machines. The maximum error that is permitted in this operation is three thousandths of one inch. Most dimensions have even smaller tolerances than this. We believe working to such low tolerances combined with the high volume of production which we must maintain is somewhat unique.

After the cups and cones are ground to the correct

dimensions, the contact surfaces are honed. Honing produces a bearing which will run quietly.

After honing, the operations on the cups and cones differ somewhat. The cups receive a final inspection to assure quality and are then wrapped for shipment. The naked cone also receives an inspection at this point, but then they must be assembled with the cage and rollers after which they are known as assembled cones.

The assembled cone is then sound tested to see that the parts fit together properly, given a final eye inspection for defects, and then wrapped for shipment.

#### COMPLETELY MECHANIZED OPERATION

All these operations as well as the material handling and machine loading are performed by machines. On the cup lines, from the time the tube is loaded onto the screw machine racks where they are fed into the machines automatically until the wrapped cups are placed in shipping cartons at the end of the line, the material is untouched by human hands.

Essentially the same thing is true on our cone lines. We do have girls handling the parts here, however, as they are placed in the assembly operation, when they are sound tested, and again when the assembled cone is eye checked at the final inspection point.

these production lines are the usual compliment of service departments necessary for the repair and maintenance of tools and equipment. Only those product part numbers sold in large quantities are made in this plant.

Obviously ours is a process type industry. As you will note a little later, our cost system is an inclusive standard cost system. Since different bearing sizes are made on the machines, it is necessary that we find a suitable common denominator in each cost center against which to relate costs incurred and by means of which to allocate those costs to the various part numbers manufactured.

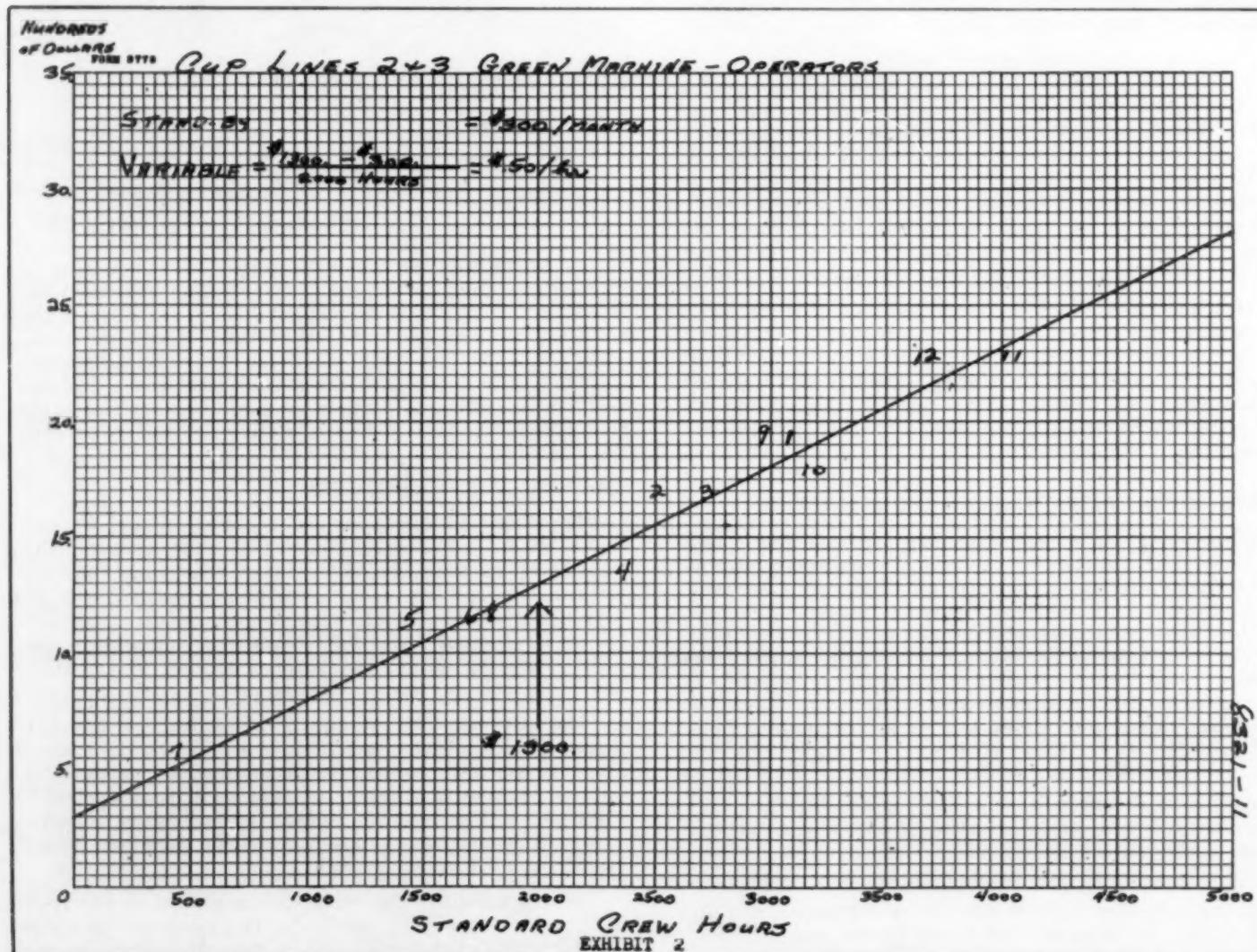
#### ACCOUNTING AND BUDGETING SYSTEM

I would like now to describe our Expense Control and Inventory Valuation system.

We use the variable budget in our Expense Control program in all our producing departments. Exhibit II is the tool we use in setting budget allowances for the variable budget. Most of you are probably already familiar with the scattergraph technique.

Such a graph is maintained for each semi-variable expense classification in each cost center.

The horizontal axis of the graph is called in units of



My purpose in describing our productive process was to permit you to visualize the accounting problem we are discussing. Picture if you will a plant having several production lines such as I have described. Supporting

the common denominator used to apply factory cost to product. Ours is the standard crew hour at Bucyrus. I shall explain it more fully a little later.

The vertical axis of the graph is scaled in dollars of  
(Continued on Page 8)

## "KNOW YOUR OFFICERS"



**Hal Mason - Vice-President**

H. S. Mason is Controller of S. C. Johnson & Son, Inc. (Johnson's Wax) in Racine, Wisconsin. He received his B.S. in Business Administration from Indiana University in 1936.

The next eleven years were spent with the General Electric Company in various financial jobs, culminating in Traveling Auditor and Works Accountant. In 1947 he joined his present company as Budget Director, was later made Assistant Treasurer, and became Controller in 1953.

Hal is a past president of the Milwaukee Chapter of NSBB, and has been a National Director of NSBB for three different periods. Besides being a director, he is currently a Vice President and is Chairman of the Chapter Formation Committee.

Hal is married and has two sons, age 4 and 2.



**William C. Campbell - Treasurer**

In getting together the information for this column, the first thing we learned about our National Treasurer is that he is a native Texan - so we aren't going to fail to pass that information on to our readers, and we will put that first also. He's a Texan.

Bill obtained his BS in Business Administration at the East Texas State Teachers College in 1942. He taught school for one year, and then joined the Hunt Oil Company as an accountant. In 1945 he transferred his affiliation to The Atlantic Refining Company, and has been with that firm since that date.

He has served in the Accounting Department, Valuation Division as a Production Economist, and is now Supervisor, Budget and Economics Groups in the Valuation and Budget Division.

Bill served as a National Director, Members-at-Large in 1954, and when the Dallas Chapter was formed in 1954, he became its first president, and now serves NSBB in the capacity of National Treasurer.

Bill's wife, Dorothy has presented Bill with three sons - Bill, Jr. 11; Bob 7; and David 1.

### THREE APPEALS TO OUR MEMBERS

In order to expedite the prompt delivery of correspondence originating from the Office of the Secretary, we would appreciate it if you will notify him immediately of any change in your mailing address . . . also please report any changes in company affiliation, so that the national records will always be up-to-date. To report a change, write to:

National Society for Business Budgeting  
Office of the Secretary  
P. O. Box 1  
Covington, Kentucky

Do you have a "shutter-bug" on your chapter roster? We would like to have news photos of your members, or pictures taken at special chapter affairs. Also send us news about your members, promotions, speaking en-

gagements, local recognition in Civic, or other business organizations, etc. Your co-operation is solicited - Only through your co-operation can we succeed in better coverage of member's activities.

Attention All Chapter Secretaries: Please forward to  
Larry Haverkamp,  
Trailmobile Inc.  
31st & Robertson Sts.  
Cincinnati 9, Ohio

information concerning your normal meeting date and place, so that we can publish this information in a subsequent issue of BUSINESS BUDGETING. You may have out-of-town visitors in your neighborhood who may drop in, if they know the time and the place. As soon as possible, please. Thanks.

## THE MARGINAL INCOME CONCEPT OF CONTROL

By: Robert C. Trundle

President, Trundle Engineering Company Cleveland, Ohio

Sometimes referred to as Profit-Volume Concept, the Marginal Income method has many uses which cannot be obtained from conventional control methods. A clear presentation of a concept which could become the Budget Directors Best Friend.

This subject has been understood and used by consultants for many, many years, but is just beginning to gain general acceptance in industry. In our company we call it the Marginal Income method of control. A number of articles have recently been published describing the concept as variable costing, and others refer to it as application of the profit-volume relationship concept to managerial control.

Before getting into this method, however, I want to review a few of the more usual methods employed by both successful and unsuccessful executives in controlling costs. I have somewhat exaggerated them, but I believe they are at least illustrative.

Let's take the first method, which we can call the direct approach. The boss takes his daily or weekly walk around the plant and happens to end up on the receiving dock. He gets there right at a time when 262 cartons of a peculiar size and shape are being unloaded. They're about ten inches wide, two inches thick and five feet long. Two hundred and sixty-two of them make quite a pile, so the boss says, "What are those things?" The answer is, "Brooms." The boss hits the ceiling. He shouts, "What the devil are we going to do with a million brooms?" Now, if he took the time to think he'd know they're going to sweep floors with them, but that's not what's important. Brooms are overhead and overhead costs a lot of money.

You all know as well as I what happens from that point on. The roof really gets raised around that place and the broom situation rapidly gets under control. Four men spend three days checking into the subject, and at the end of that time the boss learns that only 259 brooms actually were required and they've sent three back. That's a savings of over one per cent; if everyone were as alert as the boss, they could save that much on everything, and, boy, would that help the profits.

The only trouble with this direct approach is that the boss can only spend an hour or two a day on the receiving dock and too many things slip by him.

### THE SCIENTIFIC APPROACH - 30 DAYS LATE

Let's go on to the next approach - the "scientific approach." This is much more common today in this era of scientific management. The boss doesn't even have to walk through the plant when using this technique. He just sits in his office and on the tenth of the month his secretary gives him a report a half-inch thick which tells how much everything has cost for the preceding month.

Brooms are on page 34. By the time the boss gets to page 34, it's the fifteenth of the month, but, nevertheless, he has all the detail right at his fingertips. He knows how much they cost in the corresponding month a year ago and year to date.

If he's really scientific minded, he soon discovers that the figures don't mean too much because the volume changes from month to month; so he has his accountant put down percents for him, and then he really knows what's happening. He even has his accountant departmentalize the broom cost for him and when he finds a signif-

ficant percentage change, he can go down and find the department responsible.

The main trouble with this scientific approach is that it never seems to work. It does, however, give the boss something to complain about and we all have to admit that if you keep complaining it has a salutary effect on people.

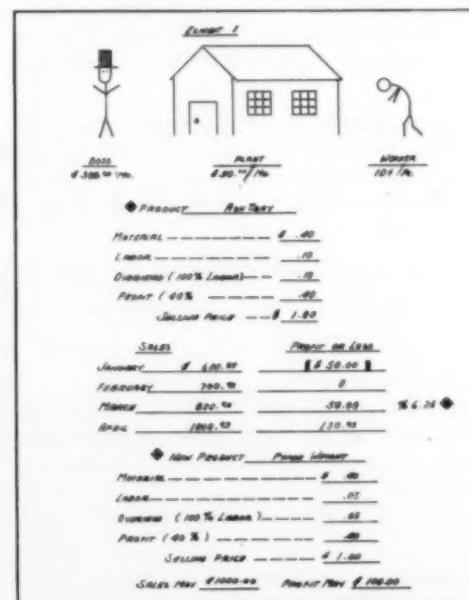
### CHARTS - THE ENGINEERING APPROACH

The third approach to controlling overhead is the "engineering approach." The average engineer can't read a financial statement intelligently, so he says, "These figures are too confusing; let's get some charts so we can see what the trends are in our costs." This boss has his walls covered with charts, and prominent among them is a chart on brooms.

This chart compares the cost of brooms with the cost of direct labor, a very sensible comparison. Each month the cost of labor and the cost of brooms is posted. If labor comes down, he expects the cost of brooms to come down. When his two lines are parallel, he's happy.

Unfortunately, the old saying, "ignorance is bliss" applies to this engineering approach. This boss forgot what he learned in his first year of college, that is, a linear plot does not show the rate of change. That probably doesn't explain much to you, so let me illustrate. Suppose the cost of labor goes from \$1,000 to \$1,500, and the cost of brooms increases from \$500 to \$1,000. Both lines are parallel, but labor has increased 50 percent and brooms 100 percent.

There are hundreds of variations of these three approaches, but all boil down pretty much to the same thing. They don't do a good job of controlling overhead.



The Marginal Income method of control requires a recognition of the weaknesses inherent in some of the conventionally accepted techniques of product pricing and control. To point up these weaknesses, I have taken a very elementary case to start with, which is illustrated on Exhibit I.

This chart illustrates a very simple company. Like all companies we have a boss, who is on a salary of \$300 per month. The business is carried on in a small rented garage, which we dignify with the name "plant," and the rental charge is \$50 per month. Last, but not least, we come to the worker, and this poor gentleman is on straight piecework with no guarantee, and he produces the product of the little business, wooden ashtrays. He is paid 10¢ a piece for each piece he produces. He has to furnish his own knife with which he does the carving, and aside from some material, this comprises the sum and substance of the expenses of the business.

The boss of the company has developed a rather novel wooden ashtray, and it is produced out of wooden blocks which he purchases for 40¢ a block. He figures when he gives labor 10¢ per piece that will adequately cover the time required by the worker, but then he knows that he has to pay his salary as boss, and someplace along the line he has to get enough money to pay the rent on the plant. He figures that an overhead of 100% of labor should adequately take care of these items, so he adds another 10¢ for overhead to his cost, and then wanting to make a whopping profit of 40%, he adds 40¢ and gets a selling price of \$1.00.

#### HOW VOLUME EFFECTS PROFIT

The first month that he is in business he sells \$600 worth of his product, and when he adds up the results, he finds that he has lost \$50.00. This obviously doesn't make good sense because he put a 40¢ profit in his selling price for each ashtray, but like all businessmen he attributes this to lack of volume and goes out and sells \$700 worth of ashtrays the next month. Thus in February instead of losing \$50 he makes no money, but neither does he lose any. This is certainly progress, so in March he puts on an all-out sales effort and sells \$800 worth of product and makes a \$50 profit. He is quite elated about this until he starts to figure the percentage profit, which he finds to be only 6.25%. This again does not make sense since he put a 40% profit in his selling price, but he is so encouraged that in April he sells \$1000 worth and makes \$150 profit, which is 15%, and he decides that this is not too bad.

About this time disaster strikes, however, as spring is definitely here and instead of using ashtrays, everyone is throwing cigarette butts out of the open windows. There is no business to be secured for ashtrays.

Being a wise and clever boss, he decides that he will convert to paper weights, since with everyone's windows open, their papers are undoubtedly blowing away. He decides that paper weights must be heavier than ashtrays, so he gets a somewhat higher material cost of 50¢ per part for making them. Paper weights, however are simpler to make than ashtrays, so he establishes a piece price of 5¢ per piece for his labor, applies his overhead of 100%, and then adds his 40% profit. This then gives him a selling price of \$1.00, and he's not going to be fooled this time.

Mr. Boss was fortunate to come out with a product with the identical selling price to the ashtray, and he has the identical profit in the paper weight as he had in the ashtray. At the end of May, when he finds his sales are \$1000, he knows he will come out with the same profit that he made in April when he sold \$1000 of ashtrays. However, when he gets his final figures he finds that the profit in May instead of being \$150 is only \$100.

It is this sort of thing which makes it so fashionable these days to have a psychiatrist.

If we refer to Exhibit II, we will find out what happened here. On Exhibit II, we compare ashtrays and paper

weights, and we start out with what we call out-of-pocket or variable costs. In both cases the variable costs are the material and the labor, and referring to Exhibit II, we find

<u>EXHIBIT II</u>		
<u>OUT-POCKET</u>	<u>PAPER WEIGHT</u>	
MATERIAL	.40	.50
LABOR	.10	.05
◆ TOTAL OUT-POCKET	.50	.05
SELLING PRICE	1.00	1.00
DIFFERENCE	.50	.95
(MI)		
◆ MI (Marginal Income) is the difference between the selling price and the variable costs.		
<u>FIXED EXPENSE</u>		
BUSINESS SALARY	\$300.00/12	
RENT	50.00/12	
TOTAL	\$350.00/12	
<u>OUT-POCKET</u>	<u>PAPER WEIGHT</u>	
\$350.00	\$700.00	
.30	.05	
\$350.00 = \$700.00	\$700.00 = \$778.00	
	◆ FIXED EXPENSE = .85	
	AND	
	◆ PROFIT = (SALES - CO.) × MI	
For example, if sales are \$701.42		
X. (701.42 - 700.00) × .30	X. (701.42 - 778.00) × .05	
X. \$1.42 (PROFIT)	X. - 77.80	
X. \$1.42 (PROFIT)	X. - 77.80	
	X. \$1.42 (LOSS)	

that the total out-of-pocket cost for the ashtrays is 50¢ and for the paper weight 55¢. We have a selling price of \$1.00 for each, and the difference between the selling price and the total out-of-pocket or variable cost is what we call Marginal Income. In this case you can see that the ashtray carries a 50¢ Marginal Income and the paper weight a 45¢ Marginal Income. We also have a definition that Marginal Income is the difference between the selling price and the variable costs.

To continue on with the analysis, we now must look at the fixed expenses, having already looked at the variable. In this case the fixed expense consists of the boss's salary at \$300 a month and the rent of \$50 a month, giving a total of \$350 per month. This fixed expense must be paid and the money available to pay it is the Marginal Income. In other words, the amount of money that is left when the out-of-pocket cost is deducted from the selling price.

#### COMPUTING BREAK-EVEN POINTS

In the case of the ashtray we have 50¢ per ashtray to apply against the fixed expense of \$350. If we divide \$350 by the 50¢ we find that we have a break-even point of \$700.

In the case of the paper weight, we have the same fixed expense of \$350, but only have 45¢ Marginal Income to apply against the fixed expense. Dividing in this case gives us a break-even point of \$778. In other words, before the fixed expense is absorbed, \$700 worth of ashtrays must be sold and \$778 worth of paper weights. After the break-even point is reached, a 50¢ profit is made on each ashtray sold, but only 45¢ on each paper weight sold above the break-even point. So, although the boss thought he had the same profit in each, he did not.

This then leads us to several more formulas. Fixed expense divided by Marginal Income equals the break-even point, and profit equals (sales minus break-even) times the Marginal Income. For example, if the sales are \$701, then  
(Continued on Page 10)

#### **THE AUTOMATED PLANT** (Continued from Page 4) cost.

Each month a point is plotted on the graph at the point of intersection of the line from the standard hours earned on the horizontal axis and the line from the actual dollars of cost on the vertical axis. We find that writing the figure representing the month of the year gives us sufficient accuracy and helps in reading the graph.

With prior year's graphs available for a long term look, we find 12 months to be sufficient history.

In establishing the budget allowance from the graph, a line of best fit is placed on the graph by sight. Adjustment must be made for changes in price since the points were plotted. In some cases, the position of some of the points must be changed for these adjustments. In others, the budget allowance can be set from the points as plotted and then the adjustment made to the budget allowance.

The stand-by element of the budget allowance is read from the graph at the point of intersection of the budget allowance line with the vertical axis. On the example, the stand-by allowance is \$300.

## CALCULATING THE VARIABLE RATE

The variable rate is calculated by subtracting the

us a variable rate of \$.50 for each standard hour earned.

The total budget allowance can now be calculated for any volume of activity by multiplying the standard hours earned by the variable rate and adding the stand-by allowance.

Although the maintenance of the graphs is no small job, we feel they pay for themselves many times over. You not only get a fairly accurate breakdown of the fixed-variable elements of cost, but the lack of correlation in the graphs often leads to the discovery of faulty accounting or operating practices. Observing costs as a list of monthly figures or as an average cost per hour will not reveal inconsistencies. However, having them pictured as a graph showing costs in relation to activity will highlight inconsistencies. Often you will find some cost pro-ration has gone awry. Again you may find that supplies are being purchased in quantities that are too large resulting in heavy charges in one month with no charges for several months following.

#### **ESTABLISHING ALLOWANCE RATES**

We do not actually set the allowances in the Budget Department. Once each year a representative of the

stand-by allowance from the total allowance read from any selected point on the line. The total variable cost thus calculated is then divided by the number of hours read from the same selected point as indicated on the horizontal axis. On the example we selected a point at 2000 hours which gave us a total allowance of \$1300. Subtracting the stand-by allowance of \$300 from the \$1300 gave us \$1000. This figure divided by 2000 hours gave

Budget Department sits down with the foreman and the foreman's boss and gives his technical assistance to help them set the allowances. By such an approach we find that operating personnel are more cooperative in trying to hold costs within the budget allowances. We also often find that such an approach will produce tighter budgets than we would get if we attempted to "Ivory Tower" the rate setting procedure.

From the allowances established, we produce a tabulated report for the foreman each month comparing his actual performance against his budget. Exhibit III is an example of this report. Only the expense classifications controllable in whole or in part by the foreman are included.

Exhibit IV is our Departmental Rate Sheet used for each cost center. The rate is then used in setting inventory standards for our product. The rate developed is extended at the standard crew hour allowance for each part number in establishing this inventory value.

FACTORY DEPARTMENTAL COSTS		STAND-BY COST PER MONTH	VARIABLE RATE
EX-SPENSE CODE			
01 DIRECT LABOR			\$1.00
11 LABOR AND JOB-REQUIRED OPERATORS			
12 CHICHERS	200	200	
16 OTHER DIRECT LABOR			\$1.00
18 SUPERVISION AND CLERICAL			\$1.00
17 SHIFT DIFFERENTIAL			\$1.00
19 PERIODS, INSURANCE, AND TAXES			\$1.00
20 VACATION PAY			\$1.00
20 HOLIDAY, JURY DUTY, & MILITARY SERVICE PAY			\$1.00
21 INDIVIDUAL INCOME SECURITY			\$1.00
20 OVERTIME, SUNDAY, & HOLIDAY Premium			
31 OIL AND CUTTING COMPOUNDS	100	100	
32 BRUSHING WHEELS AND ABRASIVES			
30 OTHER SUPPLIES			\$1.00
51 TOOLS			\$1.00
52 ENGINEERING CHARGES TO TOOLS & GAGES			
53 REPAIRS TO GAUGES & MAINTENANCE EQUIPMENT			\$1.00
54 TOOLS & GAGES - MINOR ADDITIONS			
55 POSTAGE AND FREIGHTS			
56 ENGR. CHARGES TO MACH. & EQUIP.			
57 REPAIRS TO MACH. & EQUIP.	1000	1000	
58 COST OF OCCUPANCY			
60 ELECTRICITY			\$1.00
60 AIR, WATER, AND STEAM			\$1.00
60 FUEL - GAS			
70 FUEL - EXCEPT GAS			
71 REINVESTMENT - SET-UP			
72 REINVESTMENT			\$1.00
77 FARMERS - FIRE AND GENERAL			\$1.00
78 TAXES - REAL AND PERSONAL			\$1.00
80 PORTION OF SERVICE DEPT. STANDBY COST			\$1.00
82 BUYING AND REARRANGING EQUIPMENT			
83 TOOL, CAR, EQUIPMENT			
84 TIME CHARGES			
85 EQUIPMENT RENTALS			
86 PHOSPHATING			
89 SHOTBLAST			
90 EXPERIMENTAL			
91 NEW, REPAIR, STAMPING & WARRIOR			
95 PORTION OF SUCCESS DEPARTMENTS			
96 GENERAL OVERHEAD		0.600	\$1.00
97 OTHER SURVEY			
TOTAL		101.70	\$1.00
GENERAL BLDG.			\$0.00
GENERAL, EXCLUDING GENERAL BLDG.			\$1.00
CHARGEOUT TO MACHINE HOUSE			
GENERAL, DIRECTLY OPERATED MACH.			
GENERAL STANDBY RATE			\$1.00
NORMAL STANDBY RATE			\$1.00
PERCENT REPAIR HOUSE TO PRIME UNDER PLATE 100%			
YEAR AND RATE FOR APPLICATION TO PRODUCT			\$1.00
TOTAL RATE FOR APPLICATION TO PRODUCT			\$1.00
TYPE OF RATE KEY			
YEAR 1957 UNIT CUP GRIND MACHINE			1.00
EX-SPENSE			

The important thing to note in this form is that the stand-by element of all expense classifications are converted to a rate per hour by dividing the total by the normal hours. This gives us both a variable rate and an inclusive rate for pricing product. This division is useful in sales pricing decisions and in developing break even charts.

## **CHANGES EXPERIENCED IN AUTOMATING**

The very purpose of automation is to reduce costs through increased mechanization -- particularly in the material handling and machine loading areas. The following changes which we have noted seem to logically follow such an objective. I suspect they would be typical for any industry in varying degrees.

- 1) The labor element in our producing cost centers has diminished in importance. I suspect this change is magnified beyond reality in the public mind, but there is some reduction of labor cost -- particularly in the producing cost center itself.
- 2) Our maintenance and replacement cost of tools and equipment has increased in importance. Compared with the total cost of direct labor and indirect cost, these items have more than doubled comparable costs in non-automated plants.

3) Our service department costs have increased in relation to the total plant cost.

4) We have found it necessary to group machines of different types into one cost center.

5) Our set-up or change-over costs have increased  
 6) The period cost element of total cost has risen percentage wise.

Three changes reflect the diminishing importance of labor and the increasing importance of maintenance and period costs in a Cost Control program. This is not to say that effort should be relaxed in controlling labor cost. Techniques for controlling labor are much more fully developed in most companies than are techniques for controlling maintenance. The fact that the total dollar savings possibility in this particular area has diminished is no good reason for discarding these techniques. By keeping efficiency of labor high we can still spread our period costs over more units of product. Thus over objective changes somewhat, but the need for control over labor still exists.

Perhaps the proposition is better stated positively -- that maintenance costs have become of equal importance with labor as an element for control.

## **LABOR COST CONTROL**

The control of labor costs, and indirectly the efficient use of period costs, must begin with a proper application of industrial engineered standards to accurately measure the efficiency of labor and to provide an incentive to the worker to produce more saleable product for each labor hour.

Under automated production techniques it is not possible to set individual piecework standards since the individual is not handling the pieces. The pieces are transferred from machine to machine mechanically and the speed of the production of each machine is determined by a set cycle. The worker can increase production only by keeping machine downtime at a minimum and by promptly correcting any trouble that interrupts the flow of product through the line.

Industrial engineered standards and bonus payments must be on a group basis. Our engineers, in cooperation with line management, established a standard crew required to keep various sections of the line operating. With allowance for normal machine downtime and in consideration of the engineered cycle time for each part number, standards were set in terms of the required crew hours to produce 1,000 pieces of each part number. These standard crew hours are compared with actual crew hours in calculating the group's bonus. To make this a day by day control, the pieces produced, standard crew hours, actual crew hours, and bonus earned are posted daily for the preceeding day.

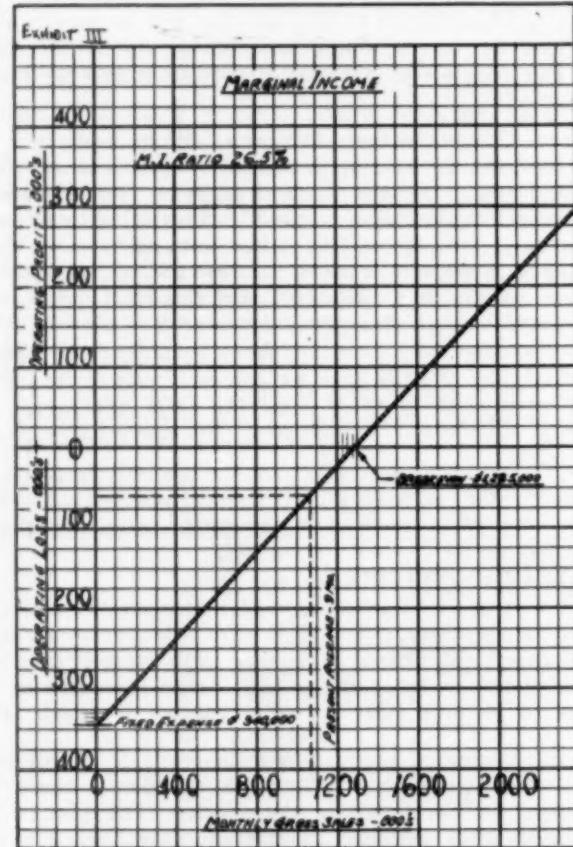
This gives a double control on the use of manpower. If the foreman uses excess manpower, an unfavorable variance will appear on his Expense Control Report. The employees themselves frown upon the use of an extra man in the crew because this would reduce their bonus unless the added man could increase production to an extent that earned standard hours would absorb the actual hours his time would add to the crew.

We use the standard crew hours as a common denominator in applying costs to part numbers for inventory valuation. Since they are tied directly to pieces produced, we feel it is most directly related to the reasons for cost incurrence. Their use simplifies the application of the departmental rates to the various parts since no special reporting of times used on various parts is necessary.

#### MAINTENANCE AND SERVICE DEPARTMENT COSTS

**Maintenance and Service Department Costs**  
The increased importance of the control of maintenance  
(Continued on Page 12)

in the case of the ashtray, using the profit formula, we find that the profit equals 50¢, but in the case of the paper weight, on the same sales, there is a \$34.65 loss.



This can be shown graphically, and Exhibit III is a conventional profit-volume relationship or Marginal Income chart. In this chart the formula, fixed expense divided by Marginal Income equals the breakeven, is graphically illustrated, but can be better visualized if converted into the formula, Marginal Income equals fixed expense divided by breakeven point. The Marginal Income is the slope of the line and the slope is computed by dividing one side of the triangle by the other. In this case, if we divide the fixed expense of \$340,000 by the breakeven sales of \$1,285,000 we come to a Marginal Income ratio or slope of 26.5%. This is the way Marginal Income is normally expressed.

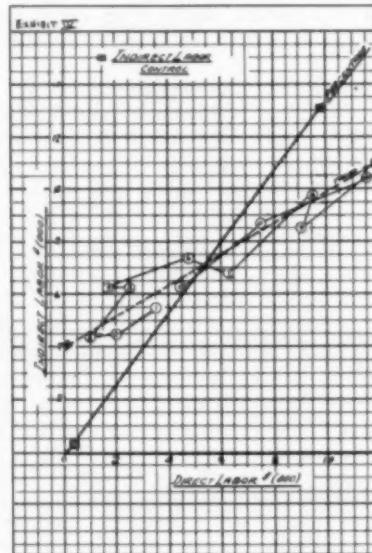
This type of Marginal Income chart is normally developed by plotting monthly operating profit or loss against monthly gross sales. A best line is then drawn through the resulting points, which gives a line such as is illustrated.

The total fixed expense shown on the breakeven chart is made up of a number of individual fixed expenses. In the same way, the Marginal Income ratio is the result of a number of variable costs expressed as a percentage of sales.

The next chart, Exhibit IV, illustrates how these individual expense charts are developed.

In this case we take the item of indirect labor and plot it against the direct labor which creates it. The individual monthly figures are shown by the dots on the chart, which are labeled 1, 2, 3, 4, 5, 6, etc., and then a line is drawn through these points. Where this line intersects with the vertical axis, we locate the fixed expense. In this case it would be expressed as \$4,000 per month fixed, plus approximately 60% of direct labor. This is then one element of a flexible budget. By applying the formula,

the correct amount of indirect labor can be determined for any variation in direct labor.



When you try to apply the indirect labor cost in pricing, or try to control indirect labor by applying a straight percentage you are actually applying this indirect labor as a straight variable which is shown by the other line which goes through zero. Obviously your indirect labor does not vary in this manner, and as can be seen on the chart, when you are applying your indirect labor or overhead on a percentage basis, you are not allowing enough between zero and \$6,000 direct labor, and you are allowing too much when you are above \$6,000 direct labor.

Here too is one of the reasons why production men and accountants get into so many arguments. Your production man just cannot make his overhead cost vary in the manner in which the accountant measures them when he uses a straight percentage as a basis for measurement.

#### EXPENSES RELATED TO SALES

Every expense of the business is plotted in a manner similar to indirect labor and then related directly to sales to give a Marginal Income figure. For control purposes, however, they are usually based on direct labor, which is the factor that creates the overhead cost.

MANUFACTURING EXPENSE			
ITEMS OF EXPENSE (COSTS)	PERIOD	PERCENTAGE	AMOUNT
SALARIES - Office and General	\$16,880	30.5%	\$4,942
Postage	1,000	3.1%	31.00
Gasoline	—	0.1%	1.00
Entertainment & Travel	2,400	6.7%	16.60
Marketing	2,000	5.7%	11.40
Manufacturing Supplies	—	1.2%	—
Chemical Cleaning Machinery	—	.5%	—
Belt Maintenance	—	.5%	—
Inspection	—	2.6%	—
Tire Change	—	1.4%	—
Tool Cuts	—	0.7%	—
Transportation - Freight	—	3.3%	—
Overtime	—	—	—
Direct Labor Losses	—	—	—
Commissions - Salesmen	—	2.0%	—
House Maintenance	—	.2	—
Administrative	—	—	—
Power & Heat - Gas & Electricity	960	.5%	4.80
Maintenance - Equipment	—	.1%	—
Maintenance - Machines	—	1.1%	—
Maintenance - Tools	—	1.0%	—
Maintenance - Mac. Equip.	—	.6%	—
Maintenance - Office Equip.	—	.7%	—
Total Manufacturing Expenses	\$42,432	31.7%	\$108,061

Exhibit IV

The next exhibit, Exhibit V, illustrates a typical manufacturing expense budget which is developed on a fixed and variable basis. This particular portion covers only

indirect salaries and wages, but is typical of the cost items controlled in this manner.

You can see that budgeting on this basis automatically takes care of volume variations which are not given consideration in the normal fixed budget. Such a method is also very useful to your supervision, because from these basic formulae actual schedules for the number of men allowable in each category can be developed, based on varying degrees of direct labor. A foreman, for example, can tell exactly how many indirect men he should have in, as soon as he knows his production schedule and can determine the number of men (direct) required.

Earlier I mentioned that this has been written up under the term variable costing. To somewhat over-simplify this without getting into detail, in variable costing only the variable costs go into inventory. Your fixed costs, which are truly time costs, are absorbed against each month's operation and many companies are beginning to realize the much more basic accuracy in this type of accounting. Actually the concept of variable costing can be used without even going to the change necessary in actually putting only variable costs into inventory. The same results can be obtained by doing it on paper and letting your existing inventory practices remain as they are.

The Marginal Income, or profit-volume concept has many uses which cannot be obtained from the conventional application of fixed, or straight percentage, overhead in either pricing or for control use. This concept will aid in

1. profit planning and establishment of objectives,
2. flexible budgeting and cost control,
3. sales analysis,
  - a. where to push sales,
  - b. which products are profitable, and to what extent,
  - c. which products to drop,
  - d. cost of varying distribution channels and methods,
  - e. effect of product mix changes,
4. pricing,
5. training,
6. current presentation of the breakeven position,
7. an understandable means of presenting facts for decisions,
8. a tool of analysis and control to appraise net effect of alternative actions, such as
  - a. new plant or equipment
  - b. labor rate changes,
  - c. price increase,
  - d. marginal business.

Space has only permitted me to high spot this whole subject, but I do hope that it will serve to interest you enough so that you will investigate the method further. I believe it is one of the most effective tools available to aid in running a business.

#### ADDITIONAL NEW MEMBERS

EMERY TONCRE, Budget Analyst, The Weatherhead Corp., Cleveland, Ohio.

HENRY J. AMEND, Financial Vice-President, Sinclair Pipe Line Co., Independence, Kansas.

WILLIAM M. FLAYLER, Supervisor of Budgets, Moraine Products, Div. G. M. Company, Dayton, Ohio.

#### NEW MEMBERS

HAROLD M. GOLDSMITH, Controller, Arwood Precision Casting Corp., New York, N.Y.

HAROLD E. WILLIAMS, Controller, The American Thread Co., New York, N.Y.

RICHARD G. ROSHENY, Cost Analyst, Remington Rand, Univac Div. of Sperry Rand Corp., South Norwalk, Conn. (New York Chapter)

GENE W. SMOOT, Supervisor of Budgets, Bridgeport Brass., Bridgeport, Conn.

ROSS B. BIGLER, Manager of the Commercial Budgetary Control, York Div. - Borg-Warner, York, Pennsylvania-Member-at-large

WALLACE SOMERS, Asst. Treasurer, Schering Corp., Bloomfield, N. J.

LEONARD P. DISIS, Staff Asst. to Treas. and Contr., Ceco Steel Prod. Corp., Chicago, Ill.

AREN A. LEWIS, Controller, Winkelman Bros. Apparel, Inc., Detroit, Michigan

HAYDEN F. HEAPHY, Budgets & Measurements Specialist, General Electric, Louisville, Ky.

JOHN L. MITCHELL, Comptroller, Fischer Packing Co., Louisville, Ky.

DON B. YOUNG, Senior Accountant, Arthur Andersen & Co., St. Louis, Mo.

JOHN T. BRAXTAN, Asst. to Comptroller, Bemis Bros. Bag Co., St. Louis, Mo.

CHRISTOPHER M. GIONTA, Asst. Treasurer, H. O. Canfield Co., Bridgeport, Conn.

CHARLES W. SCHUEPPERT, Mgr. of Budget and Control Dept., Kimberly-Clark Corp., Neenah, Wisconsin

ERIC R. GRAHAM, Vice President-Finance, Pilkington Bros. (Canada) Ltd., Toronto, Ont. Canada.

FRED A. TEGELER, JR., Budget Officer, Western Pacific Railroad, San Francisco, Calif.

R. KENNETH BLACK, Adm. Asst. to the Controller, California & Hawaiian Sugar Refining Corp., Ltd., San Francisco, Calif.

JOSEPH V. QUINN, Senior Organization & Planning Analyst, American Enka Corp., Enka, N. C. - Member-at-large

WILLIAM J. SCHARFFENBERGER, Asst. to Comptroller, Wheeling Steel Corp., Wheeling, W. Va.

JOHN R. DELICA, Manager Budget, Standard Brands, Inc., New York, N.Y.

DON C. McVAY, Consultant, McKinsey & Co., Inc., New York, N.Y.

D. ROBERT SPRINGER, Budget Analyst, Solar Aircraft Co., Coronado, Calif.

LIONEL OCTAVIO VIALES, Budget Officer & Asst. Managing Engineer, University of California, Radiation Laboratory, Berkeley, Calif.

JOHN F. WHITE, Controller, KETC St. Louis Educational TV-Channel 9, St. Louis, Mo.

FRANK McARTHUR, Supervisor Cost Analysis, Carter Carburetor Div., ACF Industries, St. Louis 7, Mo.

SCOTT D. TIMMERMAN, Asst. Controller; Budget Director, Cincinnati Enquirer, Inc., Cincinnati, Ohio

JAMES D. ROSS, Asst. to Gen'l Works Auditor, Oil Well Supply Div., U.S. Steel Corp., Dallas, Texas.

HARRY BLOOM, Budget Analyst, Railway Express Agency, Inc., Bridgeport, Conn.

E. DONALD CLULOW, Mgr. of Budgets & Gen'l. Acct., The Bingham-Herbrand Corp., Fremont, Ohio.

LAMBERT P. IRONS, Director of Economic Control, Hawaiian Airlines, Ltd., Honolulu, Hawaii.

FRED R. GEBHARD, Budget Supervisor, Whirlpool-Seeger Corp., Cincinnati, Ohio.

W. K. MASSOTH, Controller, Dynex, Inc., Milwaukee, Wisconsin.

## THE AUTOMATED PLANT (Continued from Page 9)

cost and the increased volume of dollars spent in the service departments can be combined into one discussion. Most of the costs incurred in the service departments are maintenance costs to the using departments.

With an increase in volume of maintenance costs, a company is likely to increase its activity in providing its' own maintenance rather than buying it outside. There is also a probability that certain maintenance functions will be highly repetitive. It also increases the area for profit leaks through inefficient operations in the maintenance cost centers.

Responsibility for stopping this type of maintenance cost profit leak is divided. The service department providing the maintenance service function may provide it inefficiently. On the other hand, the using department may abuse its' equipment and require a greater quantity of service than should be required.

The best way to effectively control this cost is to establish standards for the services rendered wherever possible so that the inefficiency of the service department and excess quantities of the service charged at standard values appears as variance in the using department.

In our non-automated plants, we redistribute the costs incurred in the service departments to the using departments on the basis of hours of service rendered. This merely passes the cost of the inefficiency in the service department on, to the using department. Consequently no one is effectively controlling this cost. The using departments explain their variance away by blaming the service department. The service department points the finger the other way.

At Bucyrus we are setting standards where possible for the service department. Our carbide tool cost for our screw machines is an example of this. In the "Green Machine" cost center, tool cost is higher than labor cost.

### CARBIDE TOOLS REUSED

The carbide tools used in this operation are used, resharpened, and used again as often as 64 times. The tools are made in one service department, and sharpened and set in tool holders in another. We are treating these service departments as though they were producing departments in establishing a standard cost for one use of each tool. Whenever the service departments make or regrind one of these tools, they receive credit at the standard value. If they spend more money to perform the operation than the standard allows, they show an unfavorable variance. If the using department breaks or otherwise use more tools than their standard allowance, their costs increase and their Expense Control Reports reflect an unfavorable variance.

Our program does not yet include what we consider to be adequate control in the service cost centers which perform non-repetitive service functions. Rather than pose as an authority on this subject, I prefer to refer the reader to an address given by Mr. George E. Meyers at the 1956 National Convention of the National Association of Cost Accountants, "Control of Maintenance Costs." The paper was published in the July, 1956 N.A.C.A. Bulletin. In it Mr. Meyers describes a program of maintenance cost control that does include the non-repetitive service function.

### COST CENTER COMPOSITION

Another problem that appears in the control of maintenance costs is connected with the necessity in the automated process to throw more machines of varying styles into one cost center.

In plants not automated, there is a natural interruption of the flow of production at the end of almost every

operation. Work forces are organized around a single operation. If more than one operation is included in a cost center, it is usually because they happen to be performed on the same machine.

In an automated plant, operations are joined together by the mechanical handling of materials. It becomes possible to organize the work force around groups of machines -- sometimes different kinds of machines. It becomes impossible to establish cost centers by operation because such an attempt would only mean arbitrary proportions of important costs and very likely - inaccurate cost figures.

Due to the natural flow of the work, the organization of the work force, and the points at which storage facilities for the product must be provided, we have found it convenient to establish three cost centers for each producing line. They are Green Machine, Heat Treat, and Finishing. This compares with about twelve cost centers in a non-automated plant. This simplifies our accounting task in one sense. Since all parts go through all the various types of machines in one cost center, we do not lose cost accuracy by the grouping. With fewer cost centers, our work load of developing cost standards is minimized.

However, interpreting budget variance on tools and maintenance to find the culprit causing the variance becomes more of a chore.

To solve this problem, we have found the records kept by our preventative maintenance section to be of real value. This section does not function under the Treasury Division, but works directly for plant supervision. They not only schedule preventive maintenance jobs in an effort to minimize the "crisis" type of maintenance, but they maintain records showing the cost of repair by machine number. To enable this record to be kept, the Treasury Division supplies them with a tabulated report each month showing the repair cost for each machine coming from purchase invoices, stores requisitions, and service department charges.

When our Expense Control Report to the foreman displays unfavorable variance which he cannot explain, he can refer to the machine records to find out where the dollars were spent.

### SET-UP COSTS

The next change in cost behavior which we previously noted was the increase in set-up or change-over cost. This is caused by the fact that much of the material loading devices are built for a particular part number and must be changed every time the product going through the line is changed.

The chief control of set-up cost is effected by the product scheduling department. The more often the product produced on the line is changed, the higher the set-up cost goes. We have made studies of each part number in an effort to arrive at an economic lot size. This study includes consideration of set-up cost, turnover of the part, and cost of carrying the inventory. We do not produce less than the economic lot size except in emergency.

However, operating personnel can help by keeping the cost of a change-over at a minimum when it does occur.

The first control on this cost is effected by including the service department personnel in the bonus plan of the line operating crews. Anything the set-up crew can do to minimize downtime will increase their bonus.

The second control of this cost is in the display of

## MEMBERS AND GUESTS ATTENDING THE TRI-CHAPTER MEETING AT INDIANAPOLIS



Did you ever see a finer looking group of gentlemen? These men were the members and guests in attendance at the Tri-Chapter meeting at Indianapolis. In the last issue of Business Budgeting we presented a brief summary of this meeting, and now we present proof of the attendance. Our thanks are extended to Kent Crawford, Indianapolis Chapter President, for forwarding this group picture.

both redistributed set-up cost (that is cost charged by the service department) and the cost of line personnel working on the set-up on the foreman's Expense Control Report. Thus the foreman's efforts are also directed to hold these costs to a minimum.

### INCREASED PERIOD COSTS

The final change brought about by automating which I mentioned was the first in importance of the period costs.

We feel we are giving recognition to this change by our careful analysis of costs to their fixed-variable components. Our Treasury Division is now giving careful consideration to the advantages to be gained from a conversion to the direct cost technique. As you may have noted from our system, conversion to direct costing would not be difficult.

However, we feel we are getting many of the advantages of the direct cost idea under our present system. Since we develop both a variable cost and an inclusive cost rate for each cost center, we can calculate a variable cost as well as an inclusive cost for any part number. We do not make this calculation as a regular routine on every part number. In all our plants we must calculate

standards for about 18,000 items. We feel that the duplicate effort required to have both a variable cost and an inclusive cost for every part number cannot be justified. We do use the two rates for special studies.

We manufacture only a limited number of parts at Bucyrus, however -- only those sold in large volume. This has made it possible to value that plant's production at variable cost for the construction of breakeven charts for the production of that plant.

### SUMMARY

The accounting and budgeting problems brought about through a change to automation can be solved with techniques already in the books. For a specific company, the change will result in reduced direct costs and increased indirect costs. Some of the indirect costs will be incurred in service departments rather than in the producing departments. This will require improved control of service department costs with improved techniques for pin pointing responsibility for these costs. There will also be an increase in the period type cost as opposed to the variable cost. This highlights the need for informing management of the financial results of changing volumes. This can be done either through the breakeven chart technique or in the financial statements themselves using the direct cost principles.

## EXCERPTS FROM CHAPTER NEWSLETTERS

JOHN B. MORGAN, Editor of the San Diego "News Letter," is our first guest writer for this edition of "BUSINESS BUDGETING." John gives us a description of the discussion which took place at one of their regular meetings in the style of an expert rifleman picking off his targets. Each statement he makes is brief and to the point, and leaves this reader to surmise that an active question period followed the close of this talk. This is how JOHN phrased his thoughts.

"Mr. Graydon Hoffman, V.P. Bank of America NTS, discussed the Bankers Evaluation of Business Budgeting and Forecasting Credit.

A few highlights of this excellent talk were: A large portion of loans are unsecured loans, the only assets of the Borrower are character and capacity. Borrower's ability to perform in his own field is very important. In other loans the borrower's balance sheet gives an idea of what is owned, the profit and loss statement shows how the assets are being used, and the surplus statement showing disposition of the profits is a good clue to management thinking.

In recent years considerable importance is placed on budgets and forecasts, if nothing more these items show management planning. Because people resent and resist change, it has taken as long to get budgeting and forecasting accepted as it did to get borrower's to furnish adequate and accurate financial statements. A banker is interested in forecasted balance sheets, profit and loss statements, and cash position or cash flow. These are generally required today.

A forecast is an educated guess not an exact science. A bank must meet you half-way or they are not worthy of your forecast. A good approach is to forecast the highest sales, the lowest sales, and tie-off at some mid-point.

Mr. Hoffman concluded with the thought that if budget men instead of bankers were approving loans, credit would be much harder to obtain."

Once again, we thank CHESTER JABLONSKI, Editor of the Chicago Chapter Newsletter, for a comprehensive summary of a Chicago Chapter regular meeting. We realize that a reprinting of his review of the subject discussed now comes to you just a little late to aid your own appraisal of the 1957 outlook, but it will be interesting to be able to check the opinions expressed in the article concerning the prospects for 1957 with what has actually occurred in the early part of this year. CHESTER, the spot-light is on you again.

"Mr. Charles Partee's talk on the "Business Situation and Prospects for 1957" left all of us with expert opinions to keep in mind. Mr. Partee feels that business generally will remain strong for some months to come, this trend should continue well into the Spring of 1957 as evidenced by the following indications:

1 - Current stimulus of heavy capital expenditures which will result in expanded producing capacities.

2 - The Steel Strike turned a former potential steel and iron surplus into a shortage.

3 - Industries which have noted reduced demand in the past half year or so can reasonably expect that, with a generally strong business cycle, their individual output may once again come in for greater demand. The Automotive Industry is a good example.

4 - Employment remains high and incomes continue to rise. This is particularly noticeable in soft goods and services.

5 - State and local government spending continues to increase.

6 - Federal Government spending has increased and plans call for continued large outlays, particularly on defense and communications.

If Mr. Partee's conjecture holds true, the last half of 1957 may see an easing off of business from the high levels anticipated for the earlier part of the year.

His reasons in backing his hunch are just as convincing as those above, they are:

1 - High level inventories built on strong indications for early 1957 may need adjustments downward as demand tapers off.

2 - Maybe demand for durables, for example, will not quite keep pace with the rapidly expanded production facilities.

3 - If production greatly exceeds demands as a result of capital expansion, capital expenditures would of course be reduced.

Whatever the trend of business within the next year, none of us should forget Mr. Partee's fundamental point. We should have confidence and inspire confidence in the long term steady growth of our economy and business generally. The Speaker's well planned and informative talk surely was enjoyed by all who heard him."

### TWO MORE NEW CHAPTERS!

Flash! Two more new Chapters (plus Dayton, Ohio, reported below) making THREE new Chapters since the beginning of the year, are now in the NSBB fold: they are LOS ANGELES, out in California; and DENVER, to be known as "Rocky Mountain Chapter". Harold Colman, formation chairman, reports 30 thirty charter members for Los Angeles; Don Stevens, steering committee chairman, reports 11 charter members so far for Denver, with more expected. More news in our next issue.

### WE WELCOME A NEW ADDITION TO THE FAMILY

DAYTON, OHIO has joined the NSBB family! When Gene Middlekamp transferred from Cincinnati to his new company affiliation with Harris-Seybold Company in Dayton, Ohio, he must have taken with him a strong desire to continue his close ties with the National Society for Business Budgeting, because it did not take him long to activate the latent desires of men in the Dayton area to form an NSBB Chapter. We are presenting below the list of the new members, who with two members-at-large, Middlekamp and Boge, form the charter members of the new DAYTON Chapter of NSBB.

EUGENE F. MIDDLEKAMP, Harris-Seybold Co.  
ALLAN R. BOGE, Standard Register Co.

EDWARD F. DORN, The Dayton Rubber Mfg. Co.

WILLIAM CHAFFEE, Trotwood Trailers, Inc.

ERNEST A. BRIGGS, Master Electric Co.

CHARLTON MESSICK, JR., The Duriron Co., Inc.

CHARLES S. CORWIN, Oxford Miami Paper Co.

J. ESTLE STEELE, International Harvester Co.

ROBERT L. WALKER, Harris-Seybold Co.

EDWARD C. STRAIN, The Dayton Power & Light Co.

CHARLES L. ROSS, Price Brothers Co.

JOHN A. JENNENS, The Lau Blower Co.

NOTICE  
TO ALL MEMBERS OF N. S. B. B.

OFFICIAL NOTICE

The Nominating Committee is getting ready to make its selections to present to the Membership in April.

A new President will take the helm of the Society July 1st, with a new First Vice President and three new Directors. Two of the Directors will be elected for three year terms, and one, who will represent the Members-at-Large, for a one year term.

The retiring Directors are E. G. Mauck, Past President, A. E. Barry, Bridgeport Chapter, E. A. Vatter, Louisville Chapter and L. G. Hawkins, representing the members-at-large.

Other Directors, who will continue to serve the Society, are the retiring President, W. D. McGuire, Milwaukee Chapter, as Past President; H. C. Mason Milwaukee Chapter and C. P. Reynolds, Jr., Cincinnati Chapter until 6/30/58; D. E. Bacon, Chicago Chapter and R. V. Millar, Philadelphia Chapter until 6/30/59.

A Secretary-Treasurer or Executive Secretary will be elected to a 3 year term by the Board of Directors prior to the end of the fiscal year.

The Nominating Committee, appointed by the Board of Directors, consists of:

E. G. Mauck, Chairman  
Eli Lilly & Co.  
740 South Alabama Street  
Indianapolis 6, Ind.

1955-1956 President, Member  
of the Indianapolis Chapter  
Member of the Executive  
Committee

Harry P. Kelly  
American Viscose Corp.  
1617 Pennsylvania Boulevard  
Philadelphia 3, Penna.

1954-1955 President, Member  
of the Philadelphia Chapter

William J. Edmonds  
Standard Oil Co. of N.J.  
30 Rockefeller Plaza  
New York 20, N.Y.

1952-1953 President,  
Member of the New York  
Chapter

Donald E. Bacon  
R. R. Donnelley & Sons, Inc.  
350 East 22nd Street  
Chicago 16, Ill.

A Director-at-Large,  
1955-1956 Treasurer;  
Member of the Chicago Chapter

This Committee will welcome proposals from the Membership for their slate. They should be sent directly to any of the Committee Members.

In addition to the Nominating Committee's selections, nominations may also be made directly by Members. Article X, Section 2, Sub-section (B), of the Society By-Laws reads, "Nominations may be made in writing signed by ten members, or by the Nominating Committee appointed by the Board of Directors." Mail such nominations directly from Members to: Melvin C. Aichholz, Secretary, National Society for Business Budgeting, P. O. Box 1, Covington, Ky., no later than April 12, 1957 to be included in the official ballot mailed to the membership.

1957 N. S. B. B. NATIONAL CONFERENCE  
CHICAGO, ILLINOIS  
MAY 23-24, 1957



Meet the responsible men who are responsible for staging the 1957 N.S.B.B. National Conference

(Left to Right) M. G. ULLRICH  
N. L. AULABAUGH  
C. S. HOLSTEEN  
M. C. ENGLISH  
C. E. HOGLUND  
A. G. AVANT  
E. E. YOUNT  
D. L. CARTLAND  
J. L. GARRETT  
L. B. LANDRETH  
A. H. FRANKING

- REGISTRATION CHAIRMAN  
- REGISTRATION COMMITTEE CHAIRMAN  
- CHICAGO CHAPTER SECRETARY  
- ARRANGEMENTS CHAIRMAN  
- FINANCIAL CHAIRMAN  
- PUBLICITY CHAIRMAN  
- GENERAL CHAIRMAN  
- CHICAGO CHAPTER PRESIDENT  
- CHICAGO CHAPTER PUBLICITY  
- CHICAGO CHAPTER VICE PRESIDENT  
- PROGRAM CHAIRMAN

(Missing) D. BACON  
R. K. KOMEN  
W. R. BUNGE

- RECEPTION & HOSPITALITY CHAIRMAN  
- SPECIAL ACTIVITIES CHAIRMAN  
- CONSULTING ADVISOR

**PLAN NOW TO ATTEND!**

Chicago Chapter Members will welcome you at 8:30 A.M. Registration at the Palmer House - May 23, 1957